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STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: _____

Bill Version: SB 71

Publish Date: 1-20-87

Revision Date: _____
 Title: Management of sand and gravel resources
 Sponsor: Rules Committee
 Requestor: Legislative Budget & Audit Committee

Agency Affected: _____
 BRU: Geology, Energy & Mining
 Components: Minerals/Materials Development

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		61.2	63.3	65.5	67.8	70.2
TRAVEL		10.0	8.0	8.0	8.0	8.0
CONTRACTUAL		30.0	72.7	72.5	72.2	69.8
SUPPLIES		10.0	5.0	4.0	2.0	2.0
EQUIPMENT		20.0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		131.2	150.0	150.0	150.0	150.0

CAPITAL						
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REVENUE	*See attached					
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FUNDING: (Thousands of Dollars)

GENERAL FUND		131.2	150.0	150.0	150.0	150.0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		1.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

See attached

Prepared by: Randall Updike Phone: 688-3555
 Division: Mining & Geological & Geophysical Surveys Date: 1-13-87
 Approved by Commissioner: Judith M. Brady Date: 1-13-87
 Agency: Natural Resources

Distribution (by preparer): Virginia Stonkus
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)
 Senate Secretary

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. SB 71

This would be an ongoing project to be administered by the Division of Mining and Geological and Geophysical Surveys.

	FY 88	FY 89	FY 90	FY 91	FY 92
100 - Civil Engineer, PFT	61.2	63.3	65.5	67.8	70.2
Costs for existing PCN 2040					
200 travel to various communities to ascertain needs, currently used sources, methods of acquisition, and management issues. Travel to Fairbanks, Anchorage, and Juneau to administer project and interface with other agencies.	10.0	8.0	8.0	8.0	8.0
300 map and air photo production, printing costs; helicopter and fixed wing aircraft reconnaissance; drilling and excavation contracts.	30.0	73.7	72.5	72.2	69.8
400 laboratory and field supplies (sample bags, samplers, etc.)	10.0	5.0	4.0	2.0	2.0
500 equipment: resistivity meter with dial recorder (15.0); office furniture (5.0)	20.0	0	0	0	0

reflect the uncertainties and risks associated with ultimately the estimated future net reserves.

under the circumstances of the particular case, Mobil was a refiner rather than a reseller.

Reservation

well

ed in a Rocky Mountain unit operating agreement, a well of which is required by the final order of an authorized representative of the Department of Interior. Rocky Mountain Unit Agreement Form 1 (Undivided Interest) May, 1954, Section 1 REATISE § 920.3.

(1) That which is newly created and reserved from a grant, e.g. an easement reserved in the grant of land. See EXCEPTION.

customer

customer who purchases gas for resale. See Fort Pierce Utility v. Federal Power Comm'n, 526 F.2d 993 at 995 (5th Cir. 1975).

(2) In Canada, the term "reservation" is used to describe a permit from the government for geological and geophysical surveys. The holder of a reservation who complies with applicable regulations may convert a part of the holdings under the reservation to leases. See CROWN RESERVE; CROWN RESERVE DRILLING RESERVATION; DRILLING RESERVATION.

DIRECT SALE CUSTOMER. GAS PURCHASE CONTRACT.

Reservation Price

is

urchased by a pipeline company for resale as opposed to pipeline gas (q.v.) which is transported by the pipeline for Florida Economic Advisory Council v. Federal Power Comm'n, 51 F.2d 643 (D.C. Cir. 1957), cert. denied, 356 U.S. 959 (1958).

A minimum price set by the U.S. Geological Survey for a competitive lease of Outer Continental Shelf Lands. See Logue, Sweeney and Willett, "Optimal Leasing Policy for the Development of Outer Continental Shelf Hydrocarbon Resources," 51 *Land Economics* 191 at 204 (1975).

restrictions

RESTRICTION AND RESELLER RESTRICTIONS.

Reserve

Provisions of 1974 Federal Energy Office regulations designed to protect the domestic petroleum distribution system and protect independent refiners by freezing all petroleum supplier obligations, a reseller was a middleman between a crude oil producer and a refiner. No substitution was permitted when a crude oil producer sold directly to a refiner, but a crude oil producer was permitted to substitute resellers provided the new reseller offered refiners a right of first refusal to continue to purchase the crude oil. 10 C.F.R. § 211.63(d)(1)(iv). Although this term was used throughout the petroleum allocation regulations, it was left undefined. See Basin, Inc. v. Mobil Oil Corp., 526 F.2d 1199 (Temp. Emer. Ct. of App. 1980), holding that

That portion of the identified resource from which a usable mineral and energy commodity can be economically and legally extracted at the time of determination. The term *ore* is used for reserves of some minerals. 2 OCS Oil and Gas—An Environmental Assessment, A Report to the President by the Council on Environmental Quality (April 1974) at p. 10.

See also, CROWN RESERVE; RESERVES.

Reserve added realization method (RAR method)

A method of allocating exploratory costs between different products. See Joseph, "Background and Analysis of Trial Examiner's Decision in Phillips Case," 11 *Sw. Legal Fdn. Oil & Gas Inst.* 1 at 19 (1960).

For other methods of allocating costs, see ACCOUNTING METHODS.

Reserved oil payment

An OIL PAYMENT (q.v.) which is reserved in the transfer of an interest in oil and gas. For example, a reserved oil payment may be

created when executing a lease or when assigning the working interest in a lease.

Prior to the Tax Reform Act of 1969, a reserved oil payment was entitled to the percentage depletion allowance. *Comm'r v. Fleming*, 82 F.2d 324 (5th Cir. 1936). The use of reserved oil payments was essential in the A-B-C TRANSACTION (*q.v.*). Since 1969 the sale of a mineral interest subject to a reserved oil payment is treated as a sale subject to a mortgage.

See also, CARVED OUT OIL PAYMENT.

Reserve index formula

A proration formula for natural gas. See *Cities Service Gas Co. v. State Corporation Comm'n*, 205 Kan. 655 at 660, 472 P.2d 257 at 261, 38 O.&G.R. 379 at 385 (1970), 207 Kan. 43, 483 P.2d 1123, 38 O.&G.R. 402 (1971).

Reserve life index

A measure of the estimated life of reserves calculated by dividing the proven reserves at the end of a year by the production during that year. *Northern Natural Gas Co. v. O'Malley*, 174 F.Supp. 176, 10 O.&G.R. 423 (D. Neb. 1959), *rev'd*, 277 F.2d 128, 12 O.&G.R. 355 (8th Cir. 1960).

For the relationship between the reserve life index and authorized depreciation of a pipeline see *Memphis Light, Gas & Water Division v. Federal Power Comm'n*, 504 F.2d 225 (D. C. Cir. 1974)

Reserves

The unproduced but recoverable oil and/or gas in place in a formation which has been proven by production.

For a study of the problem of estimating American oil and gas resources, see Wildavsky and Tenenbaum, *The Politics of Mistrust* (1981).

For a study of production and reserves in the Soviet Union and other member countries (Poland, Romania, Hungary, the German Democratic Republic, Czechoslovakia, and Bulgaria) of COMECON (the Council for Mutual Economic Assistance), see Park, *Oil and Gas in Comecon Countries* (1979).

See also, ASSIGNMENT OF RESERVES; CONTRACTED RESERVES; CROWN RESERVE; DEDICATION OF RESERVES; DEMONSTRATED RESERVES OR RESOURCES; DISCOVERIES; ESTABLISHED RESERVES; EXTENSION; GAS BEHIND THE PIPE; HYPOTHETICAL RESERVES OR RESOURCES; IDENTIFIED

RESOURCES; IDENTIFIED-SUBECONOMIC RESERVES OR RESOURCES; INDICATED ADDITIONAL RESERVES; INDICATED RESERVES OR RESOURCES; INFERRED RESERVES OR RESOURCES; LIFE INDEX; MEASURED RESERVES OR RESOURCES; ORIGINAL OIL IN PLACE; PARAMARGINAL RESERVES OR RESOURCES; PROBABLE RESERVES; PRODUCTIVE CAPACITY OF CRUDE OIL; PROVABLE RESERVES; PROVED ACREAGE; PROVED DEVELOPED RESERVES; PROVED UNDEVELOPED RESERVES; PROVEN RESERVES; PROVEN TERRITORY; RECOVERABLE OIL-IN-PLACE; RECOVERY FACTOR; RESERVE; RESERVE LIFE INDEX; RESOURCE; REVISIONS; R/P RATIO; SEMI-PROVEN TERRITORY; SPECULATIVE RESERVES OR RESOURCES; SUBMARGINAL RESERVES OR RESOURCES; ULTIMATE RECOVERY; UNDISCOVERED RESOURCES; UNPROVEN AREA; VOLUMETRIC METHOD OF ESTIMATING RESERVES.

Reserves/production ratio

The ratio of proven reserves to annual production, expressed in years' supply.

Reserves recognition accounting

An accounting method prescribed by the Securities and Exchange Commission under which changes in proved reserve quantities, changes in selling prices and future production and development costs, and actual expenditures for property acquisition and exploration activities are recognized in the results of oil and gas producing activities in the year in which they occur. This accounting method has been criticized as containing a number of simplifying assumptions which, by their nature, call into question the economic significance of the resulting data. The results reached under this method include the valuation of additions and revisions to proved reserves during the year, without consideration given to oil and gas produced and sold, and hence the results differ significantly from funds provided or required by current exploration, development, and production operations and from net income of the exploration and production segment presented under generally accepted accounting principles. *Standard Oil Company (Indiana) Annual Report: 1980* at p. 52.

See also, ACCOUNTING METHODS

Reservoir

(1) A porous, permeable sedimentary rock containing commercial quantities of oil or gas. Three types of reservoirs are encountered: (a)

STATE OF ALASKA

DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX 3-2000
JUNEAU, ALASKA 99802-2000
PHONE: (907) 465-4100

February 18, 1987

The Honorable Jack Coghill
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Senator Coghill:

This letter responds to the request made by Bruce Geraghty, of your staff, on February 17 concerning Title 16 authorities over sand and gravel removal.

The Alaska Statutes, Title 16, give the Department of Fish and Game discretion to approve, deny, or condition permits for various activities that affect fish, wildlife, or their habitat. Specifically, the Habitat Division issues permits to ensure fish passage in waters of the state (AS 16.05.840) and to maintain and protect the biological integrity of anadromous fish waters (AS 16.05.870).

With regard to sand and gravel removal, a Title 16 fish habitat permit is required if the proposed activity would obstruct fish passage, either physically or behaviorally, in any fish-bearing waters or would affect anadromous fish waters. Fish habitat permits may be issued with conditions designed to provide for the proper protection affected fish, or their habitat.

If you need additional information, please feel free to contact me.

Sincerely,



Don W. Collinsworth
Commissioner



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

2-25-87

MEMO

To: Members, Senate Resources Committee
From: Beth Kerttula
Re: SB-71, Sand and Gravel

Enclosed is a memo from Richard Bradley concerning the use of the word "reserve" in SB-71.

Although the memo is vintage "Bradley-ese" I think that we are safe in saying that SB-71 will not cause a lock-up of state land.

Senator Kerttula is amenable to changes in SB-71, should the committee wish, but wanted you to have the memo.

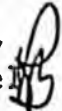
STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 17, 1987

SUBJECT: Sand and gravel resources: SB 71
TO: Senator Jalmar Kerttula
FROM: Richard A. Bradley
Legislative Counsel 

Beth asked that I comment on a question that has arisen under SB 71.

She has proposed some language modifying SB 71 in a committee substitute under discussion. I have suggested to her that the language that I heard her read did not measurably change what is there now.

But she also asked about the "reservation" question.

The answers there seem fairly simple.

It seems clear that this law is a fairly weak reed to build a "reservation" system on. The existing laws continue. AS 38.05.300 provides that state land may not, except by Act of the legislature, be closed to multiple entry use if more than 640 acres are involved in a single site. To some extent, AS 38.05.300 is an implementation of a constitutional policy-- compare art. VIII, sec. 7 of the Alaska Constitution.

On the other hand, I assume that it will also continue to be true that state land may not be disposed of until it is classified for the disposal; if the commissioner identifies land as being uniquely valuable for sand and gravel resources and knowingly does not classify the land for disposal, there is some kind of ad hoc reservation. It may be changed by a stroke of the commissioner's pen. And it seems to resolve the concerns that Beth described to me.

If I may be of further assistance, please advise.

RAB:csh
c7/063

MEMORANDUM

State of Alaska

DEPT. OF NATURAL RESOURCES, DIV. OF LAND & WATER MGMT., SOUTHCENTRAL REGION

TO: Laurel Murphy
DOM/DGGS

DATE: January 21, 1987

THRU: Tom Hawkins *THH*
Director *M*

FILE NO

TELEPHONE NO: 762-2270

FROM: Margaret J. Hayes *MJH*
Regional Manager

SUBJECT: Material Site
Identification

*REVISED
2/2/87
BK*

The Southcentral Region of the Division of Land and Water Management receives numerous requests from members of the public for material sources. It has become apparent from these requests that the viability and diversity of the economy in the southcentral region of Alaska depend heavily on the continuous availability of economically accessible sources of gravel and rip rap. Unfortunately, this Division does not have the time or sufficient personnel to identify potentially valuable material sources on state land or land available for state selection.

Nowhere is this more evident than in the Chugach National Forest (CNF) where DNR is currently developing the Prince William Sound plan which will determine which lands to select and how these lands will be used and managed. Thus, I request that the Division of Mining, Geological and Geophysical Surveys identify potential material sites, first in CNF and second, throughout our region. The material sites generally should be located no farther than three miles (one way) from a maintained road, railroad or tidewater. Gravel sites should contain enough material of road building and concrete aggregate quality that extraction can continue for a minimum of 10 years at an annual rate of 30-120,000 cubic yards, depending on local needs. More specific areas within CNF and the southcentral region where sites are most desirable will be provided by SCRO Retained Lands personnel and through the Prince William Sound planning process.

Since the 1987 construction season is rapidly approaching, it would be most beneficial if a list of known material sites on state Ta'd and patented land in CNF could be prepared by May 1, 1987. It also would be helpful if another list that encompasses all of the known sites in the southcentral region could be completed by October 30, 1988.

Although finding construction quality gravel, sand and rip rap sites in CNF and the southcentral region is the main priority, identifying and locating commercial grade limestone deposits by October 30, 1988 would be a valuable secondary goal. If the SCRO had an inventory of economically feasible limestone sources, it might be able to make them available for development and thereby promote the profitability of agriculture in the southcentral region. Presently, all of the agriculture limestone used in our region is imported from the "Lower 48". This means that limestone selling for \$16.75/ton at a Washington State pit costs the Alaskan farmer \$120.00 to \$160.00/ton. The cost is excessive precluding the use of lime in large agricultural developments like Pt. McKenzie and thus greatly reduces crop productivity and diversity. In urban areas such as Anchorage, homeowners are often discouraged from applying optimum amounts of lime to their lawns and gardens because of the price (\$6.00/50 lb. bag). Of course, any money that is spent paying for imported lime leaves the Alaskan economy.

Memo to Laurel Murphy
January 21, 1987
Page 2

Although not as commercially important as gravel or limestone, sources of building quality marble, slate pumice, flagstone, granite and similar construction materials need to be identified in CNF and throughout the southcentral region. It makes little sense to import these building materials if economically developable sites can be found in the southcentral region near land or water transportation corridors. For example, on January 12, 1987, a spokesman for Alaska Brick Company, a major Anchorage masonry supply firm, said that although 90% of its building stone was imported, Alaskan stone would be used even if slightly more expensive because it would be readily available and no large inventory would be needed. Using every possible indigenous material to build our homes and businesses is one more step towards diversifying the Alaskan economy and lessening future dependence on oil revenues.

In conclusion, compiling inventories of sites in the southcentral region for all of the materials discussed in this memo will help our effort to manage state lands more efficiently, serve the public better and improve the local economy.

cc: Prince William Sound Planning Team

KAR:blq/0550b

Alaska State Legislature

Senate Resources Committee



Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Arliss Stungulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Eliason

Box V
Juneau, Alaska 99811
(907) 465-4907

MEMORANDUM

TO: Members of the Senate Resources Committee

FROM: Resource Committee Staff

RE: SB 71; An Act relating to the management of sand and gravel resources.

DATE: February 14, 1987

This legislation would provide for the "identification, inventory and reserve of sand and gravel resources" on state lands.

The Department of Natural Resources supports this bill with one recommendation; that the word "reserve" be exchanged for "classification."

The sponsor has ~~no~~ objection to the word change.

DNR's fiscal note provides for one (1) full time position, travel expenses, resource assessment expenses, field supplies and equipment, totaling 131.2 thousand in FY 88, and 150.0 thousand in succeeding years.

In addition to DNR's fiscal note and comment letter, also included in your bill packet are: the existing AS 38.04.060, and a memorandum to Senator Jay Kerttula with its accompanying report by the Division of Legislative Finance.

Staff's knowledge of the problem this legislation addresses, indicates that considerable savings to the state treasury may be realized by passage of this bill. One area of savings would actually come in the form of increased revenue from the sale of the state's sand and gravel resources, due to an accurate accounting of the resource before the sale takes place. Another area would be in construction cost overrun litigation, which is often based on cost increases associated with materials sites designated by the state in construction projects, being unable to meet state's design and /or construction specifications, for the particular state project.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

400 WILLOUGHBY AVE.
JUNEAU, ALASKA 99801
PHONE: (907) 465-2400

February 13, 1987

The Honorable Jack Coghill
Chairman
Senate Resources Committee
Alaska State Legislature
Post Office Box V
Juneau, AK 99811

Dear Senator Coghill:

Subject: Senate Bill 71, relating to the management of sand and gravel resources.

Position: The Department of Natural Resources supports the establishment of a systematic program to identify and inventory sand and gravel resources as described in SB 71.

Background: This bill requires the Commissioner of Natural Resources to identify, inventory, and reserve sand and gravel resources to assist efforts to obtain sand and gravel for transportation systems, large-scale developments, and populated areas.

Recommendation Because the meaning of "reserve" in line 12 of the bill is unclear, the department recommends that a definition or clarifying language be added

There may be cases in which the land containing the sand and gravel deposit is better suited for purposes other than sand and gravel extraction. Instructing the department to classify sand and gravel deposits in its land use planning process would provide additional protection from competing uses, but allow the department some discretion in "reserving" deposits. A solution to this problem would be to delete "reserve" and insert "classification."

Also, the term "reserve" could be interpreted to mean that sand and gravel deposits could not be included in land exchanges or even sold to private parties.

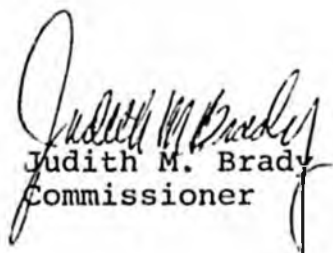
Senator Coghill

-2-

February 13, 1987

If you would like additional information or have any questions,
please contact my office.

Sincerely,



Judith M. Brady
Commissioner

cc: Commissioner Rocky Gutierrez
Acting Director Laurel Murphy
Director Tom Hawkins

2/13-sand

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

Date: November 28, 1986

TO: Senator Jay Kerttula, Chairman
Legislative Budget and Audit Committee

FROM: W. Tom Maher, Fiscal Analyst
Division of Legislative Finance

The attached report, prepared at your request, provides an assessment of the management of State owned sand and gravel resources. Your concern that additional efforts need to be applied towards the management of sand and gravel resources is well founded. The need for improving the overall management of these resources has been recognized by members of the Legislature, the Department of Natural Resources, and Governor Sheffield. Nevertheless, at this date no significant improvements can be noted.

Employees of the Department of Natural Resources and the Department of Transportation and Public Facilities were very helpful during the preparation of this report. These are the people who deal with the problems of sand and gravel management on a daily basis, but lack the direction, high-level priority, and funding commitment necessary to make improvements.

The report offers recommendations for the consideration of the Legislative Budget and Audit Committee. There are no doubt other options available that can be considered. If I can be of further assistance in drafting items called for in the recommendations, or you wish to discuss this report in general, please let me know.

Attachments

A REPORT ON THE MANAGEMENT OF STATE OWNED SAND AND GRAVEL RESOURCES

This report, prepared at the request of the Chairman of the Legislative Budget and Audit Committee, provides a brief assessment of the management of state owned sand and gravel resources. The prudent management of sand and gravel requires the state to actively pursue the process of identifying and setting aside the long-term reserves needed for transportation systems, urban areas, and potential large-scale developments. These sand and gravel reserves, necessary for construction as well as maintenance, must be identified prior to the commitment of land for other uses. In many areas of the state, lands have been classified, developed, or simply traded without the adequate appraisal of sand and gravel potential. As a result, sand and gravel must be shipped longer distances with increased costs for both state and private users. In some instances, potential state revenue can be lost and certain development projects may be made less feasible.

BACKGROUND

Concern over the state's management of sand and gravel resources is not new. SCR 44, introduced in 1984, identified numerous shortcomings in the management of these resources and generated a fiscal note which requested a three year project for sand and gravel resource management. This resolution failed to pass the Senate Finance Committee and first year funding of \$140,000 was not provided. In 1983, Governor Sheffield's statement of goals provided that "increasing demand for sand and gravel resources compel adequate inventory and active management of those materials", however these priorities have failed to be addressed at the departmental level.

By statute, the Department of Natural Resources (DNR) is charged with all matters affecting the exploration and development of sand and gravel resources. Within the DNR, the Division of Geology and Mining (formerly the Divisions of Mining and Geological and Geophysical Surveys) is empowered to determine the potential of these resources. The Division of Land and Water

Management is responsible for the actual permitting and sale. The Department of Transportation and Public Facilities (DOTPF) is the primary state agency using sand and gravel, while the Alaska Railroad depends mostly on deposits obtained through transfer from the Federal government.

Revenue from the sale of sand and gravel fluctuates largely in response to the development needs of the oil industry. DNR reports the following net revenues (less the 5% to public schools) for sand and gravel sales:

FY 83	\$3,614,130
FY 84	\$2,477,417
FY 85	\$2,587,722
FY 86	\$2,222,294
FY 87 to date	\$4,830,638 (1)

(1) Revenue for FY 87 to date reflects the accounting spread of FY 86 revenue from Kuparuk.

In addition, it is estimated that DOTPF uses between three to six million dollars a year of sand and gravel for construction and maintenance obtained by permit or interagency land management agreement from the Division of Land and Water Management.

THE STATUS OF SAND AND GRAVEL RESOURCE MANAGEMENT.

The state has inadequate knowledge of the actual location or quantity of sand and gravel available for use on state lands. Further, there is no coordinated, long-term analysis of the future availability of sand and gravel resources needed for transportation systems, urban areas, or large-scale development.

Through large-scale mapping projects, the Division of Geology and Mining has identified areas that may contain the potential for sand and gravel resource development. The amount of funding actually spent in earlier fiscal years on sand and gravel development is difficult to determine because this funding is budgeted within other projects. The Division of Geology and Mining has been requested to provide a summary of these past expenditures. For FY 87, \$1,180,700 was appropriated for state-wide Mineral and Material Development, including sand and gravel resources. However, there are many other priorities competing for this funding and therefore the division does not plan to spend any funding directly on sand and gravel development. DNR's approach has been to provide a detailed analysis of sand and gravel potential only when an actual need for the material occurs. A program has never been implemented for a long-term needs assessment. According to department officials, much of the baseline data has not been collected that is essential for future management of sand and gravel resources. Early in the FY 88 budget process, the Division of Mining and Geology proposed a new, three-year project to fill

these data voids. However, this project, requiring first year funding of \$131,200 was not brought forward when rated with other divisional priorities.

For FY 87, the Division of Land and Water Management was appropriated \$354,400 for Material Sales, which is the project under which sand and gravel sales are conducted and the public need for these resources is addressed.

Not enough effort is directed towards sand and gravel programs and coordination between state agencies is poor.

The Division Land and Water Management, due to lack of funding, is unable to adequately monitor the private sale of sand and gravel in order to assure that the state is getting paid for all resources extracted. Additionally, the Division of Land and Water Management does not have the staffing to provide DOTPF with the level of service necessary to provide a reasonable turn-around time for permit processing, yet DOTPF uses an estimated six million dollars of these resources a year (FY 86 estimate).

In 1981 DOTPF received a capital appropriation of \$1,665,000 for the development of a Material Information System (MINS). On a statewide basis, MINS supplies all available and pertinent data on over 1200 of DOTPF's existing sand and gravel sites and provides easy access to this information on the state's mainframe computer. This system, developed independently from DNR, was tailored to fit DOTPF's operational needs. It is not presently designed to anticipate the long-term needs for sand and gravel. However, MINS represents a major achievement in DOTPF's ability to manage sand and gravel resources which have become increasingly difficult to obtain within project time frames. MINS is also capable of assimilating data for material sites under private ownership, including sites managed by other local, state, or federal agencies. The capabilities of this system to improve DNR's management of sand and gravel resources appear to have been unexplored. It is possible that MINS could be redesigned to provide the DNR with a computerized base to begin the inventory of current sand and gravel reserves. Unfortunately, the MINS system is now being shut down because the balance of this project's funding was reappropriated during the 1986 legislative session. For DOTPF'S needs, this system could be continued for a one-time cost of approximately \$100,000 with \$75,000 per year thereafter in maintenance/support.

RECOMMENDATIONS

Necessary improvements in the management of Alaska's sand and gravel resources will require a reassessment of budgetary priorities by both the Governor and the Legislature. Additional funding within DNR may not be needed. If increased funding is necessary, the use of program receipts could be considered. Cooperation and communication between DNR, DOTPF, and the Alaska Railroad will be essential.

Alaska Statute 24.20.201 (6) empowers the Legislative Budget and Audit Committee to "make recommendations concerning appropriations, their expenditure and the fiscal policies and procedures of state government to the governor when appropriate, and to the legislature".

Specific options available to the Legislative Budget and Audit Committee follow:

(1.) prepare a letter to the Governor expressing the concerns of the Committee on the management of sand and gravel resources and requesting the development of a long-term plan to identify, inventory, and set aside the resources necessary for transportation systems, urban areas, and large-scale developments. A draft motion for Committee use has been prepared and is attached to this report.

(2.) prepare a resolution/joint resolution for introduction to the Fifteenth Legislature. A copy of the resolution introduced in 1984 is attached.

(3.) draft legislation amending A.S. 44.37.020., *Duties of the Department of Natural Resources*, to specifically address the department's responsibilities for the management of sand and gravel resources.

DRAFT

Fourteenth Legislature - Second Session Legislative Budget and Audit Committee

Motion # _____

Alaska Statute 24.20.201 (6) empowers the Legislative Budget and Audit Committee to "make recommendations concerning appropriations, their expenditure and the fiscal policies and procedures of state government to the governor when appropriate, and to the legislature".

The Legislative Budget and Audit Committee therefore finds:

the state has inadequate knowledge of the actual location or quantity of sand and gravel resources available for use on state lands;

there is no coordinated, long-term analysis of the future availability of sand and gravel resources needed for transportation systems, urban areas, or potential large-scale developments;

not enough effort is directed towards sand and gravel programs and coordination between state agencies is poor;

for Fiscal Year 1986, revenues generated from the sell of state sand and gravel resources contributed over two million dollars to the general fund and for Fiscal Year 1987, revenues are estimated at over five million dollars. In addition, for Fiscal Year 1986, the estimated value of these materials used by the Department of Transportation and Public Facilities was more than six million dollars;

sand and gravel represent critical resources needed for the development of the state.

The Legislative Budget and Audit Committee requests the Governor to address the concerns of the Committee relating to current and future status of sand and gravel resource management. Further, the Legislative Budget and Audit Committee requests the Governor and the Commissioner of the Department of Natural Resources to prepare for submittal to the Legislature, a plan for Fiscal Year 1988, including costs, which provides for the systematic identification, inventory and reserve of sand and gravel resources with particular emphasis on the needs of transportation systems, urban areas and large-scale developments. This plan, is intended to include the administration of sand and gravel resources used by the Department of Transportation and Public Facilities and the Alaska Railroad.

Introduced: 3/29/84
Referred: Resources and
Finance

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 SENATE CONCURRENT RESOLUTION NO. 44
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Relating to management of state con-
6 struction materials.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS sand, gravel, quarry rock, and other construction materials
9 represent some of the critical resources needed for the development of the
10 state; and

11 WHEREAS \$120,000,000 worth of sand and gravel aggregate was sold in
12 the state in 1983, a 36 percent increase over 1982, and sand and gravel
13 aggregate are second only to oil and gas in dollar value among the state's
14 nonrenewable resources; and

15 WHEREAS the state is minimally aware of the distribution and reserves
16 of sand, gravel, quarry rock, and other construction materials in Alaska;
17 and

18 WHEREAS the state has inadequate knowledge of the value of the con-
19 struction materials on state land and receives less revenue than it should
20 receive for material sales; and

21 WHEREAS the governor's July 23, 1983, statement of goals provided that
22 "increasing demand for sand and gravel compel adequate inventory and active
23 management of those materials;" and

24 WHEREAS in many areas of Alaska no state reserves of construction
25 materials have been set aside and the Department of Transportation and
26 Public Facilities is paying exorbitant prices for materials, greatly and
27 unnecessarily increasing construction and maintenance costs; and

28 ~~WHEREAS~~ ^{large amounts of} sand and gravel are needed on the North Slope
29 for gravel islands, roads, airstrips, and causeways; and

1 WHEREAS sand and gravel needed in Bethel is presently shipped over
2 distances of 40 - 100 miles; and

3 WHEREAS in Anchorage, local sand and gravel supplies have been ex-
4 hausted and materials are presently being hauled from the Matanuska-Susitna
5 Valley; and

6 WHEREAS material reserves along the Alaska Railroad corridor are
7 unknown; and

8 WHEREAS sand and gravel reserves will be needed to meet development
9 needs throughout the state for proposed projects, including the Seward
10 Port, support facilities for the U.S. Borax Mine near Ketchikan, a road to
11 the Red Dog Mine, and on-shore oil-related facilities in the Bering
12 Sea/Norton Sound;

13 BE IT RESOLVED that the Alaska State Legislature requests the Depart-
14 ment of Natural Resources to carry out a program to identify, inventory,
15 and set aside long-term reserves of construction materials on a statewide
16 basis and to establish a state management methodology for the utilization
17 of those identified reserves.

5-0357P ✓
Bradley
2/17/87

Original sponsor: Rules/Legislative Budget
and Audit Committee

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 71 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the management of sand and gravel
7 resources."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 38.04.060 is amended by adding a new subsection to
10 read:

11 (d) The commissioner shall provide for the systematic identi-
12 fication, inventory, and reserve of sand and gravel resources with
13 particular emphasis on meeting the present and future needs of trans-
14 portation systems, populated areas, and large-scale developments
15 within the state.

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of _____ 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

* FISCAL NOTE(S) ATTACHED _____ **
IN ACCORDANCE WITH AS 24.08.035
(see below)

1/20/87 DATE TURNED INTO OFFICE _____
Mr. President:

RESOURCES _____ Committee considered _____ SB 71

relating to the management of sand and gravel resources.

and recommended:

- replace with CS _____ same title
- attached amendment(s) and new title
- to pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____
- letter of intent adopted and attached
- ** Committee attached or adopted fiscal note(s)
- zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Handwritten Signature]

[Handwritten Signature]

[Handwritten Signature]

[Handwritten Signature]

[Handwritten Signature] (No "S" - No Rec)

[Large Handwritten Signature]

 Chairman signature and recommendation

Committee Backup Attached